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IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1946

Alma Motor Company,
Petitioner,

v.

The Timken-Detroit Axle Company,
Respondent,

United States of America,
Intervenor.

No. 11.

PETITIONER'S SUPPLEMENTAL REPLY BRIEF

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3. Alma's right to enforce the judgment of the Federal District Court rendered in its favor prior to July 28, 1943.

4. Alma's right to a hearing on the merits of its appeal in the Third Circuit Court of Appeals.

What rights does Alma have under the Royalty Adjustment Act? The Third Circuit Court of Appeals said "by the express terms of the statute he (Alma) is entitled to sue for what he believes himself to be entitled."

What does the statute say? Sec. 1 thereof specifically provides:

> "The licensor shall not have any remedy by way of suit, set off, or other legal action against the licensee for any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the royalties fixed in such order, shall be as provided for in Sec. 2 hereof."

Turning to Sec. 2 of the Act, we find that Alma may institute suit in the Court of Claims

> "* * * to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale or other disposition of the licensed invention for the United States, *taking into account the conditions of wartime production*"

and we also find that Sec. 2 provides that the United States

> "may avail itself of any and all defenses, general and special, that might be pleaded by defendant in an action for infringement as set forth in Title Sixty of the Revised Statutes, or otherwise."

As we have heretofore pointed out, the Act by its specific provisions takes away from Alma a very important right, that is, the right in the enforcement of the contract obligations, to the full extent of the existing rule of law which estops a licensee under a patent to deny its validity. We reiterate and direct the attention of the court to the fact that this rule of law was applied by the District Court of Delaware in the suit between Timken and Alma and that the District Judge specifically ruled Timken was estopped to contest the validity of the Ruggles and Smith patent (Judgment, R. 91).

In view of the many questions directed to counsel during the original argument in this court on this case on April 25 and 26, 1945 by many of the justices as to whether Alma could recover the full amount of royalty in the Court of Claims, we direct the court to the following:

How much latitude may the Court of Claims exercise in its application of the Act? The Act specifically provides that when the Court of Claims examines into the question of what "shall constitute fair and just compensation" it shall take into account "the conditions of wartime production."

If it be assumed that under normal peacetime production Timken would have made, let us say, 10,000 transfer cases a year, then Alma would have received $5,000.00 (also assuming, of course, that Timken would have paid its honest debt). If it be assumed that Timken's production of transfer cases, because of wartime conditions, amounted to 100,000 cases per year, Alma would be entitled under the contract to collect $50,000 per year. But what is to be the standard which the Court of Claims is supposed to use to determine what is a fair and just royalty, "taking into

account the conditions of wartime production"? Is it the amount of yearly income which, in the opinion of the Royalty Adjustment Board, is as much money as any patent owner should be entitled to earn in a year in royalties on his patented invention? For example, in *Coffman v. Breeze Corporations, Inc., et al,* supra, the Royalty Adjustment Board arbitrarily decided that Coffman could not collect in any one year more than $50,000.[9] What, if any, ratio is there to be between the amount that might be earned under the contract by the patent owner in peacetimes and the amount which the Court of Claims "taking into account conditions of wartime production" should decide would be fair and just compensation to such owner? The Act is absolutely barren of any suggestion, and there is not the scintilla, of a standard set forth in the Act to guide either the Royalty Adjustment Board or the Court of Claims in this respect.

Is the standard to be the amount the patent owner would have made in peacetime production? Taking the instant case, for example, the Schenck affidavit (R. 105) shows that Timken made and sold, roughly, 50,000 cases in 1941 and but slightly over 30,000 cases in 1942. Conditions of wartime production therefore, at least immediately after the entry of this Nation into the conflict, resulted in a decrease instead of an increase in Timken's production. Could the Act therefore possibly be administered to increase the royalty rate provided for by the contract because Timken produced less in 1942 than it did in 1941? This question answers itself because Alma could never demand more than the contract amount from either Timken or the Government for the use of its patent. The invention covered by the Ruggles and Smith patent

[9] The record in the *Coffman case* indicated that the contract royalties of Coffman amounted to $371,625.96 per year.

is not of the type that is limited in its application to the production of ordnance or other wartime material. It is an invention that is capable of widespread use for the production of four-wheel drive trucks having extensive private or commercial uses. The worth of this invention had been amply demonstrated by governmental use thereof by December 1941. Can it be assumed by anyone that if all commercial production of automobiles had not been prohibited by the Government as of January 1, 1942 that Timken's production for 1942 might not have greatly exceeded its production for 1941? The propounding of the above questions show without more that it would only be by mere surmise or pure speculation that the answers to any of them could be found.

This court has already held that the Court of Claim is bound to take a case which comes to it under an Act of Congress with the restrictions placed upon it by the legislative act. *DeGroot v. United States*, 5 Wall. 419; 18 L. ed. 700. Again in *Price v. United States*, 174 U. S. 373, 43 L. ed. 1011, this court held:

> "The Government is not liable to suit unless it consents thereto and its liability in suit cannot be extended beyond the plain language of the statute authorizing it. See, among other cases, *Schillinger v. United States*, 155 U. S. 163, 166, in which this court said: 'The United States cannot be sued in their courts without their consent, and in granting such consent Congress has an absolute discretion to specify the cases and contingencies in which the liability of the government is submitted to the courts for judicial determination. Beyond the letter of such consent the courts may not go, no matter how beneficial they may deem or in fact might be their possession of a larger jurisdiction over the liabilities of the government.'"

Alma is justly entitled to the full and perfect equivalent of the property taken, but cannot obtain that under the Royalty Adjustment Act.

As we have shown the Royalty Adjustment Act specifically places upon the Court of Claims the limitation that in determining the so-called "fair and just compensation" it shall take "into account the conditions of wartime production." Instead of Alma being entitled under the "express terms of the statute" to sue for that to which it believes itself to be justly entitled, the Act specifically precludes the Court of Claims awarding Alma its full royalty as provided for by the contract. This court by a long line of decisions has uniformly held that the just compensation provided for by the Fifth Amendment means entire compensation and not one jot or tittle less. There can be no equivalent of 50c but 50c, but by the terms of the Royalty Adjustment Act the Court of Claims may not award Alma the full 50c which Timken owed it but refused to pay, unless it ignores the specific instruction as contained in the language of the Act: "taking into account conditions of wartime production."

As we have heretofore pointed out, the Government has argued that the Acts of 1910 and 1918 are the prototypes of the Royalty Adjustment Act. We have already stated and we reiterate that the Royalty Adjustment Act is the exact antithesis of the 1910-1918 Acts. These acts were not only non-retroactive, but the 1910 Act, as amended in 1918, provided "for the recovery of his (the patent owner's) reasonable and *entire* compensation." The only just compensation under the Fifth Amendment that can be paid to Alma is its entire compensation. The District Court held Alma to be entitled to this. No part of

Alma's right to recover its entire compensation is saved to it by the Act or by the right of action granted by the Act to sue the Government in the Court of Claims. The Royalty Adjustment Act which, by its "express provisions," clearly contemplates the payment of a less amount, fails to satisfy the requirement of just compensation imposed by the Fifth Amendment of the Constitution of the United States. The United States Government can no more take away constitutionally any part of a debt owing under a contract and not pay for it than it can take away land under the right of eminent domain and not pay the full value of the land taken at the time of its taking.

The leading case under the just compensation clause is universally recognized to be *Monogahela Navigation Co. v. United States*, 148 U. S. 312. We quote from this case as follows:

> "The language used in the Fifth Amendment in respect to this matter is happily chosen. The entire amendment is a series of negations, denials of right or power in the government, the last, the one in point here, being, 'Nor shall private property be taken for public use without just compensation.' The noun 'compensation', standing by itself, carries the idea of an equivalent. Thus we speak of damages by way of compensation, or compensatory damages, as distinguished from punitive or exemplary damages, the former being the equivalent for the injury done, and the latter imposed by way of punishment. So that if the adjective 'just' had been omitted, and the provision was simply that property should not be taken without compensation, the natural import of the language would be that the compensation should be the equivalent of the property. And this is made emphatic by the adjective 'just.' There can, in view of the combination of those two words, be no doubt that the compensation must be a full and perfect equivalent for the property taken."

As we have seen under the rule of law established by this court in the *Monongahela case* and consistently followed by the court ever since, just compensation under the Fifth Amendment means entire compensation and nothing less. We have also seen that the Act of 1910, as amended in 1918, also provided in specific terms for the recovery by a patent owner of his "entire compensation" when his invention is used by the Government without license. Therefore, if the 1918 Act is, as the Government contends, the prototype of the Royalty Adjustment Act, the latter should provide for the recovery of the licensor's entire compensation. The Act does no such thing. The Act must be construed by the Court of Claims so that the liability of the Government under the Act cannot be extended beyond the plain language of the statute. *McElrath v. United States*, 102 U. S. 426; *Schillinger v. United States*, 155 U. S. 162; *Price v. United States*, 174 U. S. 373; *Eastern Transportation Co. v. United States*, 272 U. S. 675. The statute must be strictly interpreted in the Court of Claims under the authority of *Klamath and Moadoc Tribes v. United States*, 296 U. S. 244 and *United States v. Sherwood*, 312 U. S. 584.

Because this court is the only court which has any authority over the Third Circuit Court of Appeals and its judgment in this case, the constitutionality of the Royalty Adjustment Act is placed squarely before this court *Coffman v. Breeze Corporations, Inc., et al*, supra.

If Alma (as Question 2 of the court seems to imply) must proceed in the Court of Claims under the Royalty Adjustment Act before this court will rule upon the question of just compensation, may Alma raise that question later on in this court? The Royalty Adjustment

Act, grants a new, but most dubious, "right" which never existed before, namely, the right to sue the United States Government for royalties due to a licensor from a licensee under a patent royalty contract. Until the passage of the Royalty Adjustment Act no such right of action existed. May a licensor aggrieved by the issuance of a Royalty Adjustment Order avail itself of such right, bring a suit against the Government in the Court of Claims to recover its royalties and in such suit attack the entire Act as unconstitutional and void? It is an established rule of law that a suitor may not avail himself of a privilege granted by a legislative Act and at the same time attack the validity of the Act: *Great Falls Mfg. Co. v. Garland*, 124 U. S. 581, 31 L. ed. 527.

As just compensation within the meaning of the Fifth Amendment cannot be secured by Alma in the Court of Claims[10] and as Alma, if it should institute a suit in the Court of Claims, would clearly be deprived of its right (a) to collect the royalty provided for in the contract, (b) to collect the royalties and interest thereon adjudged by the District Court to be due to it, (c) to enforce the judgment of the District Court, and (d) to proceed with its action in the Third Circuit Court of Appeals on the merits of its appeal duly filed therein; question 2 propounded by the court must be answered in the negative. So answered, we submit this court, unless it is to disregard its long line of decisions on the question of just compensation under the Fifth Amendment, must hold the Royalty Adjustment Act to be unconstitutional as a violation of the Fifth Amendment.

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[10] If that court did award Alma the full amount of its royalty as just compensation, the Act would be meaningless.

Wherefore, Petitioner respectfully prays that this cas
be remanded to the Third Circuit Court of Appeals wit
directions to such court to vacate its Order of August 7
1944, herein, as amended October 2, 1944; to proceed t
hear Petitioner's appeal on its merits and for such othe
action as in the opinion of this court is necessary an
proper in the premises.

Respectfully submitted,

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I. JOSEPH FARLEY,
Counsel for Petitioner.

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PETITIONER'S SUPPLEMENTAL REPLY BRIEF

As the Constitutionality of the Royalty Adjustment Act is placed squarely before this Court it should be Ruled upon now

The Government's latest, but most belated. move—its motion that this court now, without passing on the constitutionality of the Royalty Adjustment Act, remand the case to the Third Circuit Court of Appeals for action by it on the merits of petitioner Alma's appeal—is, to say the least, a most astounding proposition. Having succeeded in convincing that court its jurisdiction to consider Alma's

appeal was ousted, Government counsel now are urging in effect that the jurisdiction of this court to consider the constitutionality of the Act is ousted because of the failure of the court below to pass on the merits of the appeal.

We submit the above is susceptible of but one interpretation, namely, that the Act as applied in this case is recognized by Government counsel to be so flagrantly unconstitutional that said counsel have gone to the utmost extremes in the hope of forestalling determination by this court of the very pertinent questions which the court propounded to be dealt with on this reargument.

In 1943 when Government counsel was strenuously contending in support of Respondent Timken's Motion to Dismiss Petitioner's Appeal as well as the complaint and counter-claim (R. 53), the Government in its memorandum brief (p. 6) for the United States as amicus curiae, filed in this case in the Circuit Court of Appeals for the Third Circuit, said:

> "Any adjudication by this court upon the merits of the appeal, involving the scope of the patent in suit, might affect the interests of the United States, and would be made upon the basis of a record in a suit in which the United States has not participated, is not a party, and could not be made a party. The rights of Alma Motor Company for plaintiff's use of its invention can, under present circumstances properly be adjudicated only in a suit against the United States, as provided in Section 2 of Public Law No. 768. We respectfully suggest therefore, that the appeal should be dismissed for mootness, since there is no actual controversy before this court within the meaning of the Declaratory Judgment Act."

The Government, after a lapse of three years during which time it not only tacitly acquiesced in the granting of

certiorari by this court but strenuously argued for the correctness of the action taken by the Third Circuit Court of Appeals, now has the effrontery to ask this court to send the case back to the Third Circuit Court of Appeals for the determination of a matter that was squarely before that court as of February 27, 1943, when Alma filed its notice of appeal and again on May 12, 1943 when Alma filed its statements of points to be relied upon (R. 51). This belated move of the Government is made in spite of the fact that ever since Timken on August 25, 1943 filed its motion to dismiss petitioner Alma's appeal "because of transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768." The United States Government, through its attorneys, has repeatedly and unequivocally argued that Royalty Adjustment Order W-3 ousted the jurisdiction, not only of the Third Circuit Court of Appeals but also negated the judgment of the District Court with respect to all royalties whether they cover the cases designated as the T-79, the T-32, the T-43-G or the T-43-H cases (R. 49-50), thus putting Alma to a tremendous amount of trouble and expense in order to safeguard and enforce Alma's purely private contract rights against Timken.

It must be remembered *that the cases involved in Alma's claim are not solely the T-79 cases but include as well the T-32, the T-43-G and the T-43-H cases* (R. 49-50) upon which last three-mentioned types of cases the District Court ruled that Timken should have paid the royalties to Alma. Payment of such royalties to Alma was prevented by the issuance of Royalty Adjustment Order W-3, which Order, Government's counsel most strongly urged in the court below, ousted the jurisdiction of the Circuit and District Courts and relegated Alma to an action in the Court of Claims. Now it seeks to mend its hold and have

the case remanded to the Third Circuit Court of Appeals for a determination of the very question that was before that court before the Government intervened in the proceedings in that tribunal.

We submit the Government cannot under the rule, enunciated in *Railway Company v. McCarthy*, 96 U. S. 258, now mend its hold and change its position, for as stated by this court in that case:

> "Where a party gives a reason for his conduct and decision touching anything involved in a controversy, he cannot, after litigation has begun, change his ground, and put his conduct upon another and a different consideration. He is not permitted thus to mend his hold."

Since Order W-3 is not directed solely to the T-79 cases but equally to the T-32 and T-43 cases as well, we see no occasion, at this late stage of the proceedings for getting a determination of the question as to whether or not the T-79 cases are dominated by the claims of the Ruggles and Smith patent. Obviously the belated determination of this question would not dispose of the entire question of the constitutionality of the Act as applied in this case. The constitutionality of the Act is still placed squarely before this court by the withholding of all royalties due Alma by Timken on the T-32 and T-43 series of transfer cases as to which the District Court's judgment held Timken owed Alma and should have paid to Alma, and which judgment became final because of Timken's failure to appeal therefrom.

Three years ago when the Government intervened in the proceeding between Timken and Alma (No. 8300 in

the Third Circuit Court of Appeals), the Government in its brief (p. 3-4) for the United States as Intervenor stated:

> "On July 28, 1943, the United States War Department issued 'Royalty Adjustment Order No. W-3' pursuant to the Royalty Adjustment Act of October 31, 1942. That Order directed Timken to pay no royalties whatever to Alma under their license agreement on account of the manufacture, use, sale, or other disposition of any transfer cases for the United States. Alleging that the 'structures here in suit have all been made for the Government,' Timken then moved to dismiss the appeal on the grounds that there was no longer a justiciable controversy under the Declaratory Judgment Act since Section 2 of the Royalty Adjustment Act made the sole remedy of the licensor, if he is aggrieved by an order thereunder, an action against the Government to recover fair and just compensation (see Timken Br. p. 30). By leave of court, the United States filed a memorandum brief as *amicus curiae*, suggesting that if all the transfer cases in suit had been or were being manufactured for the Government, as Timken averred was the fact, an 'actual controversy' between the litigants no longer existed within the meaning of the Declaratory Judgment Act, in view of the issuance of the Royalty Adjustment Order."

The above statement was followed by extensive argument in support of the Government's position that the Act was constitutional and as such the only court that had jurisdiction over the matter was the Court of Claims and not the Third Circuit.

Having convinced the Third Circuit that its jurisdiction was ousted that court ruled (R. 120):

> "Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall

> appear to the Court that a justificiable controversy exists between the parties arising out of the facts set forth in the complaint, except that the court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment *and dismiss the complaint as moot*" (Italics ours).

Now the Government back-tracks and takes the opposite position. This court should condemn such practice as now attempted which is so foreign to accepted and orderly rules of practice and legal procedure and deny the Government's motion to remand.

As respondent Timken relied upon the Royalty Adjustment Act as a defense to escape payment of the royalties it owed Alma, sound principles of judicial administration require that this court proceed to a full determination of the constitutionality of the Act *(Coffman v. Breeze Corporations Inc. et al.* 323 U. S. 316).

Government's Prejudged Assumption of Patent Invalidity

Almost at the very outset of the Government brief we find this totally unwarranted statement (Govt. Br. p. 21):

> "Petitioner now claims that as a result of its license agreement with respondent, the Government must, during wartime, pay royalties for the use of the patented invention, *however invalid the patent may be.*"

Petitioner, Alma, makes no such claim. The true gravemen of Alma's complaint is that the Government cannot constitutionally, under the guise of the exercise of the power of eminent domain, under the war power or any other

power of the Government, interefere directly with private contract rights and seize money adjudged by a Federal District Court to be due Alma by Timken. Nothing could be further from the truth that Petitioner, Alma, "now claims * * * the Government must, during wartime, pay royalties for the use of the patented invention however invalid the patent may be." Petitioner now urges, *as it has always urged,* and as we have more fully pointed out in our Supplemental Brief (pp. 30-32) that the record clearly shows Timken never paid any royalties to Alma and hence did not and could not charge them to the Government. Therefore neither the Government nor the people of the United States have been asked to pay any royalties to Alma or anyone else for the use of the patented invention. And, as we have shown in our Supplemental Brief (pp. 32-35), as Timken by refusing to pay the royalties to Alma assumed the full burden for the payment thereof as a matter of law, there is and can be no public interest in the royalties here involved.

The attitude of the Government that permeates its entire brief is to disregard entirely Timken's obligation to pay its just debt and to obfuscate the self-evident fact that Timken obviously made a profit on every transfer case it sold to the Government. If Timken's production was much greater on account of wartime production, naturally the amount of Timken's profits increased in accordance with the increase in production.

The Government, we submit, improperly seeks to have this court consider this case as if it were solely a controversy between the Government and Alma. It seeks to keep Timken's obligation to pay its honest debt and the profit made by Timken by reason of the license contract entirely out of the picture.

The only record reference to be found anywhere in this case touching on the patent's invalidity appears (R. 73) where an Army Major made the statement "the opinion of the Chief of Ordnance is that the patent is invalid." The Government seizing upon this unsupported statement now boldly asserts that the patent is worthless and argues that "the issue presented is whether Congress may thus outlaw the technical rule of estoppel normally barring a licensee from challenging the validity of a licensor's patent." It cites the cases of *Sola Electric Co. v. Jefferson Electric Co.*, 317 U. S. 173 and *Scott Paper Co. v. Marcalus Mfg. Company*, 326 U. S. 249, as outlawing the estoppel rules (G. Br. p. 17).

The *Scott Paper Co. v. Marcalus Mfg. Co.* case, *supra*, upon which the Government so heavily relies is not authority for the Government's contention that a licensee is not estopped to deny the validity of a patent (Govt. br. 12, 35, 36). That case did not even deal with the question of estoppel as between a licensor and licensee but was decided upon the sole ground that the assignor of a patent, who by the way was sued for patent infringement and not for licensed royalties, was making a device that was fully covered by an expired United States Letters Patent. We have no such facts in this case nor any that remotely resemble them.

The *Sola Electric Co. v. Jefferson Electric* case, *supra*, is likewise not authority for the Government's contention that a licensee, as here, is not estopped to deny the validity of a patent. In that case there was a clear violation of the Sherman Anti-Trust Act in the fixing of prices and the court made no ruling whatsoever on the patent's validity. Again we have no parallel of the facts in the case with those of the instant case.

We submit that the Government's unsupported attempt to convince this court that the licensed patent is invalid is wholly without merit and this is particularly so since under the Act that defense is not available unless and until Alma should bring a suit in the Court of Claims against the United States Government.

The irony of the repetitious references in the Government brief to an "invalid" and "worthless" patent, which so obviously seek by innuendo to prejudice this court against the validity of the Ruggles and Smith patent, is emphasized by the effort made in the prior "Brief for the United States" which in an abortive attempt to justify "the opinion of the Chief of Ordnance" sought to lend color to the Government's unsupported assertions of invalidity the inclusion in Appendix C of such brief of the clearly inadmissible letter, dehors the record, written for the purpose of this controversy by Major D. J. Clifford, an assistant of the Detroit Branch of the Ordnance Department to the Chief of Ordnance and dated Dec. 12, 1942. Paragraph 8 of this letter reading as follows:

> "8. Mr. Brown was, in March 1933, stationed at Holabird Quartermaster Depot, Baltimore, Maryland and on March 24, 1933, made and signed a drawing of a new transfer case, a print of which drawing is attached. Shortly after this drawing was made Mr. Brown disclosed it to Mr. Petersen of the Brown-Lipe Division of the Spicer Manufacturing Corporation by which a transfer case embodying Mr. Brown's ideas was built and installed in a White truck which was delivered to Holabird Quartermaster Depot in November, 1933."

which contains the only indication of what the opinion of the Chief of Ordnance was predicated upon is highly enlightening because this same Brown drawing of March 24, 1933 was introduced in the District Court as PX28

(D. R. 61a & 327a).* A large amount of testimony with respect thereto was taken in the District Court wherein this alleged invalidating art was referred to as the Spicer transfer case or prior use (D. R. 40a-42a, 61a-66a, 84a-86a, 88a-92a, 97a, 171a, 193a, 218 a-230a, 248a-254a).

The District Judge fully discussed and disposed of this Spicer use in his opinion (R. 37-38). So this court is now treated to the piteous spectacle of the Government relying on the mere opinion of a single individual—the Chief of Ordnance—apparently based solely on a biased report of a subordinate as overruling the considered opinion, based on duly admitted evidence, of a competent legal tribunal—a Federal Court—which court alone, according to this court, is given the power to pass on the validity of a duly issued United States patent (See Pet. Supp. Brief p. 35-41).

When we consider the equities of this case it is clear that the doctrine of estoppel should apply, for as Judge Kirkpatrick in his opinion (R. 35) stated "five patent lawyers participated in the conference and at least two in drawing the agreement. They understood the rule that estops a licensee," and "As a matter of fact, Timken's lawyers knew more about the prior art than Alma did, an important use having been shown to Alma's counsel, for the first time, only a few hours before the conference."

The District Court in interpreting the license contract found that

> "The provision contained in Clause IV does not permit the licensee to contest the validity of the patent.** This point is settled by the decision of the

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* See footnote P. 43 of "Brief for Petitioner" for index of this citation.

** It also decreed as a matter of law "3. Plaintiff is estopped to contest the validity of said Ruggles and Smith patent herein" (Judgment (R. 49)).

Supreme Court of the (sic) *United States v. Harvey Steel Co.*, 196 U. S. 310" (R. 36).

It is important here to note that this court in the *Harvey Steel Co.* case supra definitely held that the estoppel of a licensee to contest validity operates as fully against the Government as against a private party.

The rule which estops a licensee to attack the validity of a patent under which he is manufacturing is not a mere technicality of the patent law but is founded upon the salutary equitable principles of estoppel to the effect that one may not accept the benefits of a contract and at the same time deny the obligations thereof. It is a matter of common knowledge, and indeed of common sense, that no one ever agrees to pay as royalty any more than a fractional part of the savings effected, or profits expected, from the use of the invention. Ordinarily these savings or profits are in no way affected by the mere fact of the validity or invalidity of the patent, or as this court put it:

> "Having actually received profits from sales of the patented machine, which profits the defendants do not show have been or are in any way liable to be affected by the invalidity of the patent, its validity is immaterial. Moreover, we think that the defendants are estopped from alleging that invalidity." *Kinsman et al. v. Parkhurst*, 18 How. 289, 293.

During the trial in the District Court, in a colloquy between Judge Kirkpatrick and counsel for respondent Timken, the latter admitted that the Army wanted the Ruggles and Smith type of transfer cases "because it sold cheaper" while the court summed up the situation by stating:

> "It is a matter of expense and production, simplicity, compactness and various other things" (D. R. 254a).

So the Government and the people of the United States who got the benefit of the savings due to the cheaper patented construction, as well as its other advantages, should as a matter of plain justice be no more entitled to attack the validity of the patent than respondent Timken.

All of the high-sounding phrases which seek to justify the Act as a price-fixing regulation, the absurd new license and frustration theory, the exercise of the power of eminent domain in support of the war power of the sovereign and the cases cited in support of these various theories all conveniently ignore Timken's duty to Alma under the contract.

As the Act is not a proper exercise of eminent domain because it seeks to take the money adjudged by the District Court to be due Alma and can have no bearing on the Government's right to use the physical structure—the subject matter of the contract—which right the Government possessed fully and freely because of the license contract—all of the Government's argument on this subject is futile, first, because the seizure of money is recognized by all the eminent authorities on the subject not to come within the purview of the power of eminent domain; second, because money seized cannot be a taking of private property for public use within the meaning of the Fifth Amendment; third, because in view of the extensive taxing measures adopted by the Government there was neither any necessity nor emergency to justify the Act. Furthermore as admitted by the Government (Govt. Br. pp. 29-30) the reduction of royalties is fully provided for by the Renegotiation Act and finally because as Timken, in refusing to pay Alma the royalties due, therefore could not properly charge, and did not charge them to the Government, Timken thus assumed the full liability to pay its

debt to Alma if it failed to prevail in its Declaratory Judgment action against Alma. There is, therefore, and cannot be any public interest involved in the purely private Alma-Timken controversy or lawsuit. District Judge Kirkpatrick summed up the entire situation, when in his opinion in discussing Timken's contention that the public interest outweighs the estoppel rule, tritely said:

> "* * * I find no circumstances in the present action which requires a consideration of the validity of this patent in the public interest. I am not adjudicating its validity. I am merely holding that this plaintiff may not contest it, and I do not think the public is interested in whether Timken pays royalties to Alma or not, which is the only thing at issue here" (R. 36).

Royalty Adjustment Act Invalid Exercise of War Powers

It must be remembered that prior to the execution of the license agreement between Timken and Alma both parties were claiming the same invention that is now covered by the licensed patent. The actions of Timken, who attempted to get the very claims it and the Government now urges to be invalid and who acceded to the validity of the claims by (1) conceding priority, (2) paying $1,500 down and (3) executing the license contract, certainly refutes the baseless statements that the Government now makes throughout its brief that the patent is invalid. The cases which the Government cites as examples of the Federal war powers (Govt. Br. p. 22), have no pertinence to the situation here because in none of such cases was there any *taking* by the Government of any property whatsoever. In fact in the *Bowles v. Willing-*

ham (321 U. S. 503) *case*, cited by the Government, Justice Douglas delivering the opinion of the court said (p. 517):

> "We are not dealing here with a situation which involves a taking of property."

Under the heading "The Act is a Necessary Wartime Measure" (Govt. Br. pp. 23-30) the Government again sets forth many unsupported statements and quotes figures that are entirely outside of the record in this case. Is the Government attempting to have this court decide this case on matters dehors the record? Apparently it realizes it has a very weak case, otherwise why go outside of the record for support. This court should not countenance such unethical and unprofessional conduct.

Under the above-quoted heading (pp. 28-30) the Government states that under the Renegotiation Act excessive royalties may be recaptured by the Government. If we accept such statement at its face value, it belies the entire Government's argument (Govt. Br. 24-31) as to the necessity of the Royalty Adjustment Act, which so outrageously flounts the prohibitions of the Fifth Amendment. The Government's contention (Govt. Br. p. 30) that the "stage money" figure of one-half billion dollars was allegedly saved by the Government through the operation of the Act is based entirely on matters wholly outside of the record in this case.

Pages 30 to 36 of the Government brief again laboriously struggle with the repetitious argument that the licensee is not estopped to challenge the validity of a licensor's patent and urges that Congress may outlaw the *technical rule of estoppel*. We have never heard of the technical rule of estoppel. What we contend for in this case is the equitable rule of estoppel that has long been established,

even before the case of *United States v. Harvey, supra,* and a multitude of decisions of the Federal courts, as well as decisions of the British courts. That equitable rule is based on the fundamental doctrine that one may not reap profit to the detriment of another by the use of the latter's property and then claim that the property is no good. But Congress did not outlaw this rule of equitable estoppel by the Royalty Adjustment Act. Instead it struck down the patent owner's right, for the sole benefit of the Government in an invalid attempt to seize money due Alma—not a proper exercise of the power of eminent domain.

The decision by this court in *Sola Electric Company v. Jefferson Electric Company supra* did not abrogate the time-honored rule of equitable estoppel which prevents a party to a contract who has reaped benefits from the use of property with a corresponding detriment to the other party from asserting that the property is worthless—a rule which has been consistently and uniformly followed and applied in the Federal Courts since *Kinsman v. Parkhurst, supra.* In fact, in the *Sola case, supra,* this court approved the rule in the following language:

> "The circuit court of appeals, in holding that petitioner as a licensee was estopped to challenge the validity of the patent, did not say whether it considered that it was applying a rule of federal or of state law, and it cited no decisions of either the federal or the Illinois courts. Where no price-fixing stipulation was involved in the license contract, this rule of estoppel, which was not questioned by counsel, was applied without discussion in *United States v. Harvey Steel Co.* 196 U. S. 310, 49 L. Ed. 492, 25 S. Ct. 240; cf. *Kinsman v. Parkhurst,* 18 How. (US) 289, 15 L. Ed 385. We need not decide whether in such a case the rule is one of local law, cf. *Dale Tile Mfg. Co. v. Hyatt,* 125 U. S. 46, 53, 54, 31 L. Ed. 683, 686, 687, 8 S. Ct. 756, or whether, if it be regarded as a rule of federal law

> because the construction and application of the patent laws are involved, it was rightly applied in *United States v. Harvey Steel Co.* 196 U. S. 310, 49 L. Ed. 492, 25 S. Ct. 240, supra. For here a different question is presented—whether the doctrine of estoppel as invoked below is so in conflict with the Sherman Act's prohibition of price-fixing that this court may resolve the question even though its conclusion be contrary to that of a state court." *Sola Electric Co. v. Jefferson Electric Co., supra,* at page 175.

That case was decided on the fact that there was a violation of the Sherman Act and not upon the patents validity or invalidity. Here there is no holding of invalidity by any court of competent jurisdiction but an usurpation of the power of the Federal Judiciary by the Act as applied, based solely on the mere opinion of the Chief of Ordnance with no evidence nor finding of record to enable anyone to obtain the slightest hint upon what such opinion was predicated.

In the *Sola case* this court quite correctly held the estoppel rule could not be used to thwart a Federal statute which condemns an act as unlawful.

Here we have no question of any illegality of any act of petitioner Alma nor any question of the patented devices as in the case of *Scott Paper Co. v. Marcalus Mfg. Co., supra,* being exactly the same as that disclosed and claimed in a prior expired patent and which had by mere operation of the controlling patent statutes, which authorized the grant, gone fully and freely into the public domain.

What we have here is an attempt by the Government to legislate vested contract rights of Alma out of existence in order that the Government may seize the money due Alma by Timken—money in which neither the Government

nor the public has any interest, because it was never charged to or paid by the Government to Timken. The Act applied here thus "taking one man's property away and handing it to another" *(Osborn v. Nicholson,* 13 Wall. 654), to the flagrantly unjust enrichment of Timken at Alma's expense while at the same time the Government reaps all the advantages which accrued to Timken by obtaining the right to use freely and fully the devices which it purchased from Timken without any danger of suit under the 1910 or 1918 Acts for unlicensed or infringing use, together with all of the advantages of lower cost, simplicity, etc. noted by District Judge Kirkpatrick as being inherent in the Ruggles and Smith invention (D.R. p. 254a). Added to this the Government also obtained the further advantage of speedy deliveries and, we can assume lower cost price, resulting from the use of "the only sources adequately provided with the equipment and knowledge essential to the expeditious and efficient use of the inventions" (Govt. Br. p. 28); or, in other words, Timken's "know how" gained as the result of over three years' manufacture by Timken under the license prior to our entry into the War.

Before leaving the subject of war powers it must be recognized that "even war power does not remove constitutional limitations safeguarding essential liberties," *Home Building and Loan Association v. Blaisdell,* 290 U. S. 398; *Ex Parte Milligan,* 4 Wall. 2 and the cases cited at pages 22 and 23 of Petitioner's Reply Brief.

So-Called Price-Fixing Regulation

The Government (Br. pp. 37-40) glibly argues that the Royalty Adjustment Act is a price-fixing measure and cites the cases of *Yakus v. United States*, 321 U. S. 414 and *Bowles v. Willingham, supra*, but neither of those cases support the statement that the Royalty Adjustment Act is a price-fixing measure. In neither of those cases was there a *"taking"* by the Government of property, whereas the Act in this case provides that the excess royalties "shall inure to the benefit of the Government" and that the excessive profits shall be paid over to the Treasurer of the United States. We fully covered this subject of alleged price-fixing in our reply brief (pp. 24-26) and our supplemental brief (pp. 18-23). See also the supplemental brief of Amici Curiae (p. 13).

Retroactivity

The argument of the Government (Govt. Br. pp. 41-50) with respect to the application of the Act to pre-enactment royalties is not an answer to the sound argument presented in Petitioner's Supplemental Brief (pp. 9-28) but on the contrary argues that the Government is entitled to all of the royalties from September 12, 1939 (it conveniently omits to furnish this date) to the date of the Act October 31, 1942 (Govt. Br. p. 42) and attempts to rewrite the Royalty Adjustment Act by changing the words "conditions of *wartime* production" to read "National emergency." But when the Act itself is examined and our argument as contained in Petitioner's Supplemental Brief (pp. 23-28) fully considered it is obvious that "National

emergency" has no place in the Royalty Adjustment Act. Perhaps the Government would like to extend the "National emergency" back to include the Chino-Japanese war. Wartime production definitely could not begin until the United States had declared war or war was declared against it.

Nor is there any merit to the contention of the Government that Alma or other patent owners (Govt. Br. p. 51) in 1910 had notice that the United States Government would interfere with patent royalty contracts to the extent of cutting in thereon and taking a part or all of the royalties due a patent licensor. The 1910 Act and its amendment, as we have shown in our previous briefs (brief for Petitioner, pp. 55-56 and Supplemental Brief, p. 36), merely provided a new remedy for a patent owner; was not retroactive; did not interfere with existing contract rights, and took nothing away from a licensor—the antithesis of the Royalty Adjustment Act. A United States citizen in 1910 or thereafter certainly did not have notice that Congress in violation of the United States Constitution would attempt to interfere in private contracts and confiscate patent royalties due thereunder.

There is no Congressional determination, to reach retroactively accrued royalties, in the Royalty Adjustment Act (Petitioner's brief, pp. 11-28) but if there is, as the Government contends (Govt. Br. 52), then the Act as here applied puts a premium upon Timken's refusal to pay its just and honest debt, and the citation by the Government of tax cases (Govt. Br. 54-55) to support this argument is in realty an argument in support of a tax dodger, for if Timken had paid its just debt to Alma the Act most certainly would not apply. We submit that the Govern-

ment's argument in support of the retroactive application of the Act merely serves to emphasize the Act's complete invalidity.

New License Theory

Petitioner's Reply Brief (pp. 2-8) filed at the April 1945 hearing is a complete answer to the Government's new license theory (Govt. Br. 59-72), but at the risk of being repetitious we again point to the language of the Act, which language does not support the new license theory, because the Act plainly does not say so, nor even remotely suggest it. Throughout the Government's brief it stresses, as we have heretofore pointed out, that the petitioner Alma's patent is invalid and gives that as a reason why zero royalties have been awarded. If, therefore, as the Government contends, the patent was invalid, a new license could not be taken because the new license could not be effective until the taking took place at which time also the royalties would become effective. Therefore under the Government theory there was here taken a new license under an invalid patent to pay royalties. Could anything be more fantastically ludicrous? What the Government did in this case was to substitute itself for the licensor insofar as collecting the royalties stipulated in the consensual, license and that is what the Act provides. The Government no more took a new license under the Act than it took the licensor's patent or the patented structures from the licensor, but took all royalties above those stipulated in the Order because such reduction in royalties as provided by the Act "shall inure to the benefit of the Government."

The Frustration Theory

What we have said above with respect to the new license theory applies equally as well to the frustration theory. The license of the parties has always been kept alive and in fact was and is the basis of the Government's claim under the Royalty Adjustment Order. When the Government took over Alma's benefit of the royalties under that contract and ordered those royalties paid over into the Treasury, it substituted itself for the licensor as a recipient of the stipulated license royalties but refused to substitute itself for the licensee as the payer of the royalties. The learned court below following the language of the Act and its purpose found (R. 116-117):

> "What we have here is a taking of private property for public use. The property involved is the patent owner's royalty rights under the license with the manufacturer."

Suit in the Court of Claims

In what appears to be the Government's answer to the court's question 2 the Government (Govt. Br. p. 73) concludes that the "only issue to be adjudicated in the Court of Claims suit is the validity of the patent" and that the Petitioner there "will be entitled to recover the full amount of the stipulated royalties," if the patent is valid. Nothing could be further from the truth and the plain language of the Act. In a suit in the Court of Claims that court would have to be guided by the language and the purpose of the Act (Petitioner's Supplemental Br. 45-48) and if it granted the full amount of the stipulated royalties

the Act of necessity would be a nullity. Section 2 of the Act permits a licensor to "institute suit against the United States in the Court of Claims * * * to recover such sum, if any, * * * which shall constitute fair and just compensation * * * taking into account conditions of wartime production." Consequently if, on the Government's assumption, Alma's patent was found to be valid the language of the Act would require the Court of Claims to scale down the royalty by the "taking into account conditions of wartime production."

Under the 1910 Act as amended all the court had there to determine was "reasonable and entire compensation" in purely patent infringement cases, unaffected by any contract rights involving a licensor's money and unrestricted in its findings on just compensation by "conditions of wartime production." The Royalty Adjustment Act from its very language cannot give licensor his entire and just compensation but must give less in view of "conditions of wartime production."

The argument (Govt. Br. p. 76) that the "only effect of the Act is to substitute the Court of Claims for the District Court" is not supported by the record and the rights of which Alma was deprived (Supplemental Br. pp. 41-42) and as the Act in this case has deprived Alma of those rights and of the money due it under its licensed contract, the remedy which it had before the intervention of the Royalty Adjustment Act is not equalled by the remedy afforded by the latter. The Government's quoted statement (Govt. Br. p. 79) "The particular remedy existing at the date of the (licensed) contract may be altogether abrogated if another *equally effective* for the enforcement of the obligation remains or is substituted for the one taken away" emphasizes petitioner's contention that the Royalty

Adjustment Act affects not the mere remedy but that the Act definitely deprived petitioner of its legal rights.

The Act here is decidedly analogous to that held invalid in *Lynch v. U. S.*, 292 U. S. 571, where this court said:

> "* * * Fourth. The question requiring decision is, therefore, whether in repealing 'all laws granting or pertaining to yearly renewable term insurance' Congress aimed at the right or merely at the remedy. It seems clear that it intended to take away the right; and that Congress did not intend to preserve the right and merely withdraw consent to sue the United States" 292 U. S. 571 at 583.

The Government's brief (p. 80) states "we know of no reason why the Court of Claims would not be free to decide all the questions of law including any challenge to the validity of the statute." We answer this by referring to page 49 of our Supplemental Brief wherein we point out that if we brought an action under the Act to receive its benefits, we could not at the same time attack its validity. *Great Falls Mfg. Co. v. Garland*, 124 U. S. 581.

CONCLUSION

We wish to direct the court's attention to the fact that the major part of the Government's brief on re-argument should be disregarded because it does not attempt to present any direct or succinct arguments in answer to the Questions 1 and 2 formulated by the court, but instead is characterized by generalities and the citation of cases which have no direct bearing on such questions. We, therefore, submit that, in view of the matters presented in this brief, our Supplemental Brief and the Supplemental Brief of Amici Curiae, both questions of the court must be answered in the negative and the Royalty Adjustment Act declared to be unconstitutional.

Respectfully submitted,

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